



ISEC

Working Paper

Working Paper 408

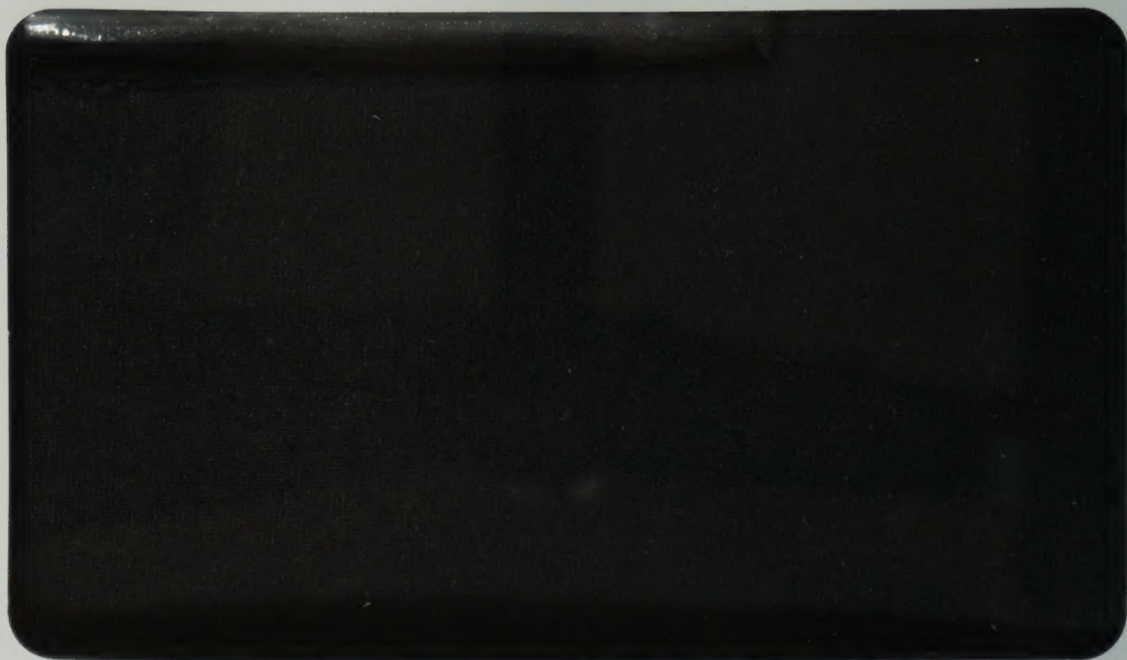
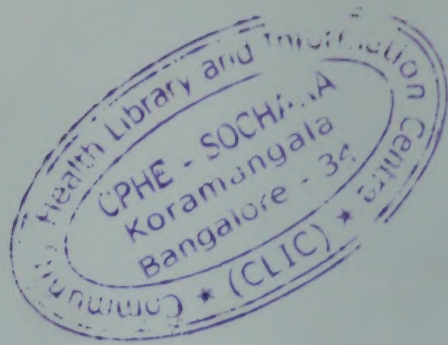
**World Bank's Reformed
Model of Development in
Karnataka**

Amitabha Sarkar

INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE

Dr V K R V Rao Road, Nagarabhavi, Bengaluru - 560 072

16647



Working Paper 408

World Bank's Reformed Model of Development in Karnataka

Amitabha Sarkar

RN
22/6

→ TN
30

ISBN 978-81-7791-264-7

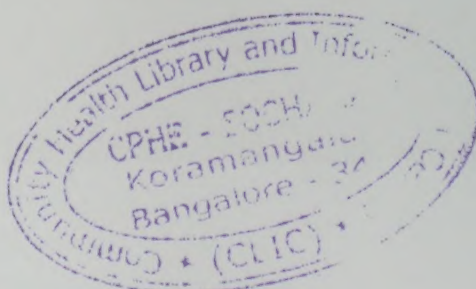
© 2018, Copyright Reserved

The Institute for Social and Economic Change,
Bangalore

Institute for Social and Economic Change (ISEC) is engaged in interdisciplinary research in analytical and applied areas of the social sciences, encompassing diverse aspects of development. ISEC works with central, state and local governments as well as international agencies by undertaking systematic studies of resource potential, identifying factors influencing growth and examining measures for reducing poverty. The thrust areas of research include state and local economic policies, issues relating to sociological and demographic transition, environmental issues and fiscal, administrative and political decentralization and governance. It pursues fruitful contacts with other institutions and scholars devoted to social science research through collaborative research programmes, seminars, etc.

The Working Paper Series provides an opportunity for ISEC faculty, visiting fellows and PhD scholars to discuss their ideas and research work before publication and to get feedback from their peer group. Papers selected for publication in the series present empirical analyses and generally deal with wider issues of public policy at a sectoral, regional or national level. These working papers undergo review but typically do not present final research results, and constitute works in progress.

Working Paper Series Editor: **Marchang Reimeingam**



DEV-170

1117 D18

WORLD BANK'S REFORMED MODEL OF DEVELOPMENT IN KARNATAKA

Amitabha Sarkar*

Abstract

Economic liberalisation has widened the scope to adopt new model of development for Indian states to plan fiscal space management and improve on the service delivery. This paper attempts to understand how this model is theorised and implemented under the evolving context of reform in Karnataka. It is a process analysis of the reform period to identify and explain the role of reform instruments (strategies, techniques and tactics) as advocated by the World Bank in restructuring the state economy and reorienting the governance system. It suggests that contextual determinants need to be studied thoroughly to understand the governmental rationality behind policy decisions. It argues that reform outcome should be measured against the success of reform instruments (process indicators) instead of only depending on impact indicators.

Key words: Fiscal space management, reform, economic liberalisation, public policy analysis

Karnataka's Rendezvous with Reform

The 25-year mark of economic liberalisation in India (1991– 2016) once again brings back the long contested question as to whether this reform helped people lead a better life. From academia to politics, opinions are not only divided but also fractured to fully appreciate the reform-led liberalisation. The scholarship is abundant with regards to policy impact of reform in various social and economic indicators, especially for health, education and income. The reform in Indian context usually refers to the economic liberalisation policy adopted by the Govt. of India in 1991. This policy decision has vertically percolated to the multi-layers of the government (Union to state to local bodies) and horizontally expanded to the various sectors (health, education, transport, power, agriculture etc.) of governance.

In scholarship, the sector specific assessment is limited to the changes made in the policy within the sector and followed by the outcome achievement for respective governance services. This outlook of assessment gives little scope to understand how these sector specific reform policies are intrinsically linked to the overall macro-economic adjustment and co-opted/dissented by the different political regimes. Hence, the recommendations of the outcomes mostly deal with the intra-sector governance shortcomings without addressing the issues of governmental limitation as determined by the political decisions and economic priorities. This gap in academic enquiry underscores the importance of public policy to deal with fundamental issues of governance faced by the public sector. Thus the evaluation of any sector-specific governance reform needs an understanding of the incremental reform processes which is linked to the development of state polity and economic restructuring. This paper attempts to understand the very evolving context of the reform processes, and not any particular

* Author is a PhD Research Scholar at the Centre of Social Medicine and Community Health, School of Social Sciences, Jawaharlal Nehru University. Email: sarkarjnu@yahoo.com.

The paper is a part of the author's on-going PhD research at the Jawaharlal Nehru University. It is conceptualised during the SRTT Visiting Fellowship Programme at ISEC (2016-2017). The author is thankful to two anonymous reviewers for their comments, and the ISEC academic community for the intellectual inputs exchanged during the progress of the paper. Usual disclaimers apply.

sector, determined by the political decisions, economic choices and basic governance arrangements. The paper is based on the review of various secondary literatures including academic writings, declassified World Bank documents, newspaper reporting and government reports.

The Decade of Impending Reform

Karnataka, like any other state, had little to do with the adoption of economic liberalisation policy by the Govt. of India (GOI) in 1991. The political and social transition of 1960 – 1990 followed by flawed economic planning turned the state financially weakened in the first half of 1990s. Continuous fund shortage combined with the mood of then Union govt. regarding economic policy, led to the state withdrawing itself from various industries and instead be dependent on private sector, including foreign capital. The immediate effect was borne by the farmers settled in peri-urban areas who had to sell their lands to industry and housing projects. The liberalisation of the economy brought about sizable investment in the software industry because of the easy availability of skilled manpower and low investment criterion (Pani, 1998). In-fact, the state economic policy was quick to read the characteristics of liberalisation and accordingly made the Information Technology (IT) a priority industry to build in Bangalore by attracting foreign capital with moderate land acquisition rules and keeping the infrastructural cost extremely low.

This IT boom had made reasonably good contribution in the state's industrial growth. In late 2000, a study found that the contribution of IT services in GSDP increased from 1.70% to 2.95% (in constant price) between 2001 – 01 and 2003 – 04. Also, the growth of ICT had a positive impact (for the period between 2001 – 01 and 2002 – 03) on per capita income, share in tertiary sector for state income and in the expansion of tele-density (Narayana, 2008). However, the growth was not free from socio-political binaries. Pani (1998) opines that right after the post-liberalisation industrial surge, sectors like IT created a different social and political tension by creating jobs only for skilled manpower and leaving the unskilled labour at bay. The state finally entered into the reform process after SM Krishna got elected as CM (Chief Minister) in 1999.

The Background of Reform

Liberalisation was a result of Balance of Payment (BOP) crisis in 1991 where Govt. of India (GOI) had to accept the policy of economic liberalisation, privatisation and globalisation at the suggestion of the World Bank and International Monetary Fund and in return obtained conditional loans. Though the macro-economic policy level reform takes place at the level of Union govt., the implementation of the macro-economic led state economic and sector specific governance reform occurs at the state level. The first effects of liberalisation were felt at the state level around 1995.

It is necessary to elaborate the background of the reform initiation at the state (per se, Karnataka) level. In spite of long association with India, the World Bank was frustrated by GOI's resistance (except in two occasions in 1966 and 1991 due to balance of payment crisis) to adopt policy recommendations citing the clause of sovereign status. The Bank's staff was not satisfied with the pace of reform after the 1991 liberalisation. GOI was also unable to push the reform at state level because of political differences, constitutional arrangement and historical understanding that gave autonomy to the

states to deal with core governance subjects, i.e. health, education, industrial policy, taxation and other related issues.

The thrust for 'second generation reform' (as coined by P Chidambaram) started at the state level during 1995–96 and became the primary concern of the policy makers of GOI. At the same time, state governments were also facing fund crunch to invest in social sectors because of poor tax to GSDP (Gross State Domestic Product) ratio and surmounting interest payment for loans already taken. In the middle of this fund crunch, then newly-appointed World Bank Country Director Edwin Lin took 'anti-egalitarian' and much more selective approach to woo the states to join in the reform initiatives. He promised to raise the assistance from 5238 Cr. (USD 1.5 billion) to 10476 Cr. (USD 3 billion) for the overall country in the mid of 1990s.⁽¹⁾ The states were selected on the basis of their eagerness for reform and ability to achieve the economic growth. The Bank officials thought to showcase the achievement of growth in future to attract other states for accepting reform agendas (Kirk, 2007).

The speeding up of reforms in Karnataka was one of the primary outcomes of the Bank's 'focussed states' approach to advance reforms at the state level. Karnataka is considered to be the model state for reform-led development. It has implemented the Bank's financed economic restructuring programmes for two consecutive fiscal years. The strong commitment towards the structural adjustment of the economy in initial years has fetched a number of sector-specific funding from the Bank. For example, the state was extensively supported by the Bank for projects in sectors like health, transport, panchayat raj etc. Karnataka's rapid adoption of the reforms was a result of issues like the limitation of federal politics at the centre level, compulsion of fiscal contraction at the state level, tactics of the World Bank and other macro-economic concerns.

The next section is about the context where the reform is executed. This context is an evolving one where the macro-level changes in the economy are implemented in consultation with the sector-specific governance reforms. The post-liberalisation period of Karnataka is experienced of many policy initiations as well as modifications in order to match with the basic principles of liberalisation policy. The context for the case of Karnataka is a context of policy of reform. The question is why reform is featured as main programme of this evolving context.

"Let us believe not only that it is necessary because it is just and ought to be, but necessary because it is inevitable and must be" (Shelley, 1920, p.1).

Shelley's philosophical take on reform applies across the centuries and contexts to highlight why contextual evolution is a prerequisite to understand the 'inevitable' phenomenon, the reform. The staggering state finances, economic slowdown, rapidly losing political legitimacy and inefficient public systems of 1990s, all led to the economic policy of the Union government trickling down to the states. The acceptance of reform was thus 'inevitable' for Karnataka. The post-liberalisation reform is the single largest change in policy paradigm where economic choices, political decision and governance management have come together to overhaul the public systems. Liberalisation policy is therefore always marked as a policy of reform that introduced in the state polity.

In Karnataka, like in rest of India, the reform takes place mostly in economic and governance management. There is no political reform as such, though transformation occurs in political priorities. These transformations are propelled by the political decisions, as inputs, which are rationalised time and

again to implement reform. The economic reform is the process of execution of the rationalised decisions and governance reform is the output of the decision taken and process executed. The focus of this paper is economic and governance reforms.

The Economic Reform

The economic reform in Karnataka and other Indian states started in the second half of the 1990s. At the state level, the economic reform is mostly concentrated on fiscal reform. Fiscal reform is about the management of state revenue and expenditure to help the economy function smoothly. Indian states were driven to the fiscal reform because of tremendous stress on fiscal spaces, which appeared in the second half of 1990s (Howes, Lahiri and Stern, 2003). Hence, fiscal reform has become the central agenda of economic reform at the state level.

This is the time when Indian states came across a new model of development which is more technical, authoritarian, top-down and donor driven. The background of the state level fiscal crisis of 1998 was similar to the balance of payment crisis faced by the GOI in 1991. Both the reforms were initiated primarily because of the economic crisis. The fiscal crisis of Indian states pushed them to approach the GOI and multilateral agencies for "cash for reforms" (Howes, Lahiri and Stern, 2003, p. 5 – 6). The Eleventh Finance Commission, 1999, of GOI introduced special 'Fiscal Reforms Facility' fund for the states to incentivise the participation in the fiscal reform programmes for correcting fiscal imbalances and reduce revenue deficit. That was the formal entry of Karnataka into India's state level fiscal reform programme (GOK Finance MTFP, 2006).

Reasons for Fiscal Crisis

Karnataka's economy was strong in 1990s compared to other major states and national average. The growth rate of Karnataka was 8% per year as against 5.6% per year for other fourteen major states between 1995–96 and 1999–2000. Karnataka also experienced largest rise of Foreign Direct Investment (FDI) from first half (3%) to second half (19%) of 1990s among the six major states of India. Irrespective of these strong growth indicators, the state fiscal crisis started appearing from 1995 – 96 onwards. The revenue receipt decreased from INR. 159 Cr. (surplus) to – 2325Cr. (deficit), and fiscal deficit had also escalated from INR 513 Cr. to INR 4276 Cr. between 1990 – 91 and 1999 – 2000 (GOK Finance MTFP, 2001). The surmounting pressure on the state revenue generation avenues and dependency on loans (both from the external and market) at the risk of debt trap condition convinced the state to formally adopt fiscal reform measures under the new thrust of economic liberalization policy.

There are number of reasons behind the fiscal pressure in Karnataka. According to the first Medium Term Fiscal Plan (MTFP), 2001, revenue deficit (both tax and non-tax), fiscal deficit, increasing debt servicing, mounting losses in public sector enterprises, tacit subsidies in social sector (urban health, education) and irrigation projects, slow growth of tax and non-tax revenues, revision of salary and pensions (due to Fifth Pay Commission) and escalating fiscal pressure at state-level local bodies (municipality/corporation and *panchayat*) were the main reasons of fiscal stresses (GOK Finance MTFP, 2001 and 2005). Apart from the above mentioned factors, the situation further got worsened by the

practice of off-budget borrowing on regular intervals to finance its loss making public sector units and big infrastructure projects.⁽²⁾ For example, the state budget of KPTCL- Karnataka Power Transmission Corporation Limited (erstwhile Karnataka Electricity Board) got increased by INR 270 Cr. from 1997 – 98 to 2000 – 01 as against the financing need of INR 1380 Cr. over the same period of time. Thus, the KPTCL had to opt for market borrowing to meet the shortfall (Khuntiya, 2003).

S M Krishna, the Political Image of Reform

S M Krishna govt., after getting elected in the latter half of 1999, took a serious note of the state's degrading fiscal condition. Mr. Krishna, from the very beginning of his tenure, tried to create a public debate on fiscal policy. The government brought out a White Paper on state finances in 2000, to highlight the dismay reality of state's financial situation and followed it by announcing in the 2000 state Assembly budget speech, a ten-point reform programme to overhaul the governance system. The mood of the reform is best captured in point number 5 and 6 of the ten-point reform programme (Khuntiya, 2003, p. 218).

Point 5 of the reform programme spoke about the need to expand the state's infrastructure by allotting more resources and also promised better management via innovative organisational mechanisms.

Point 8 promised to provide the people of Karnataka with a transparent, responsible, responsive and decentralised government.

The political adherence to reform is evident with the introduction of new institutional mechanisms for managing infrastructure better. The government also declared that it was committed to offer good governance to the people of Karnataka. Hence, public dialogue was complemented by legislative action and administrative measures. The government tried to take people into confidence to make them accept the path of reform by creating a public debate and democratising the information regarding the fiscal position of the state.

The Dawn of 'Fiscalised Development'

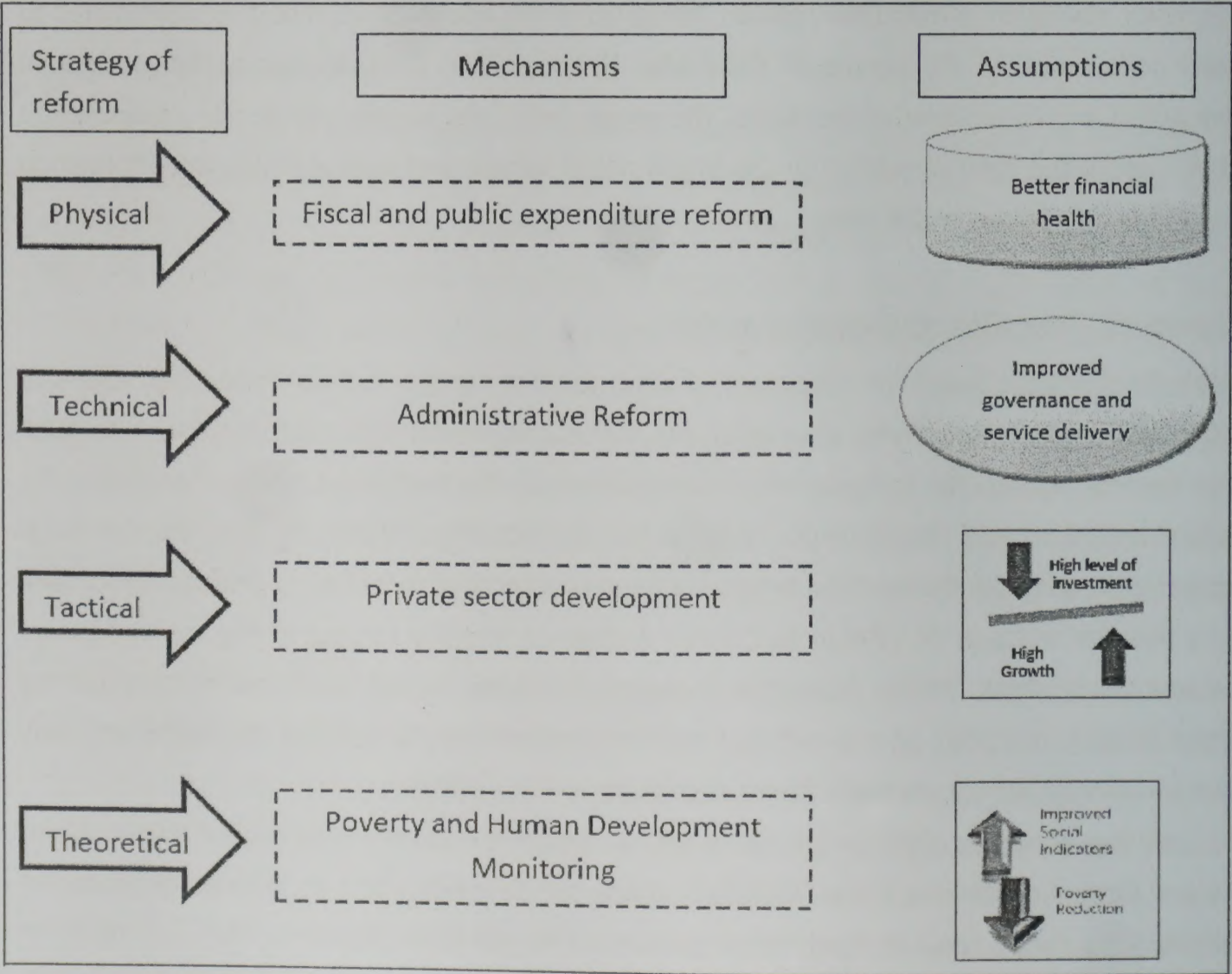
The state's fiscal crisis offered two contradictory ways for the regional political leadership, either to accept the macro-economic reform and participate in the competition or to perish being a force of resistance towards reform. The performance was incentivised by the Union govt.'s special assistance for fiscal reform initiatives and World Bank's financial backing (Khuntiya, 2003). World Bank has been instrumental in steering the fiscal reform process in Karnataka through technical assistance. World Bank adopted a policy in the year of 1998 in its Country Assistance Strategy to support the reform inclined Indian states (World Bank, 2001). Thereafter it came up with the Karnataka Economic Restructuring Programme (KERP), modelled after a different form of development, to support state-level economy under the endowment of Programmatic Structural Adjustment Loan (PSAL).

Reducing access to financial resources was a trigger for already cash-starved Karnataka to accept a new form of development, the "*fiscalised development*". It is a model of development designed to 'modernise' the state's finances by developing channels for non-state financing. This new mode of development is different from earlier Mysore state-led development or population-centric development

also known as *Kannada* development model. Despite having the commonality of a top-down style of functioning, fiscalised development is more technical, tactical and theoretical in design and is governance dependent. The role of politics is secondary here and surrender to the conditions of economic restructuring is the central factor.

Karnataka Economic Restructuring Loan 1 (KERL 1) by the World Bank was the first in its kind where the state got a one-tranche (one-time) operational assistance for the fiscal year of 2000 – 2001. It was a conditional assistance based on the four specific mechanisms to restructure the entire economy. The assistance was divided in half loan (INR 3594.75 Cr./USD75 million) and half credit (INR 3594.75 Cr. /USD75 million) form.⁽¹⁾ The mechanisms focussed on fiscal and public expenditure reforms, administrative reforms, private sector development, and poverty and human development monitoring (World Bank, 2002). The Second Karnataka Economic Restructuring Loan 2 (KERL 2) was also made in line with the KERL 1 to advance the same mechanisms for reform. KERL 2 assistance was also equally shared between loan (INR 2283 Cr. / USD 50 million) and credit (INR. 2283Cr. / USD 50 million) support from the Bank for the fiscal year of 2001 – 2002 (World Bank, 2003).⁽¹⁾ World Bank-guided economic reform interrupted the legacy of state’s politics-driven planning exercises. The Bank, already a party to the Union govt. for state level reform for long, has a theory behind the state level economic restructuring. Below is the Bank’s model of fiscalised development in Karnataka which the state has been following since the beginning of 2000.

Picture 1: World Bank Model of State Level Fiscalised Development



The Bank had introduced four types of mechanism powered by the long-term strategies to ensure the reform pathway for Karnataka (World Bank, 2002). The next section explains the operational logic of each mechanism, their interrelation, and their implementation processes.

A) Fiscal and Public Expenditure Reform

The first mechanism, fiscal and public expenditure reform, is physical in nature. This component pursued the state govt. to create structural bindings for fiscal management by enactment of necessary Fiscal Responsibility Legislations (FRL) and operation of administratively-improvised policy instrument. Karnataka Ceiling on Government Guarantee Act, 1999 (to put a cap on increasing contingent liabilities) and Karnataka Fiscal Responsibility Act (KFRA), 2002 (the first in the country to eliminate revenue deficit and limit fiscal deficit within 3% by 2005 – 06) were the two statutory laws enacted to make fiscal space management compulsory in state finance activity (GOK Finance MTFP, 2005). Subsequently, a series of fiscal management agendas were taken up to honour the legislations. Revenue management, expenditure management, debt management, public finance management and procurement transparency were the outcomes of fiscal and public expenditure reform initiatives. An administrative measure entitles MTFP (Medium Term Fiscal Plan) was devised as an innovative apparatus to serve as a technical guide for the implementation of reform agendas and act as a performance-monitoring tool for the reform yardsticks (World Bank, 2002).

MTFP is one of the most important reform apparatuses ever devised for fiscal space management; it has been utilised as both policy tool and operational instrument to keep the reform on a steady path for long. It was introduced in 2001 and thereafter regularised within the fiscal management system. MTFP usually serves two purposes. The draft MTFP is exercised as an operational instrument of internal-guiding documents to various departments before the budget preparation. The final MTFP is used as a policy tool for larger stakeholders to discuss the fiscal plan and performances. In the context of economic reform, the introduction and regularisation of MTFP should be considered as a milestone. It has been envisaged as an apparatus (like MTFP) backed by the legislative laws that could fulfil the objectives of fiscal management policy to restore the financial health of the state accounts by slowly neutralising debt trap, eliminate the revenue-deficit problem and limiting fiscal deficit within the reach.

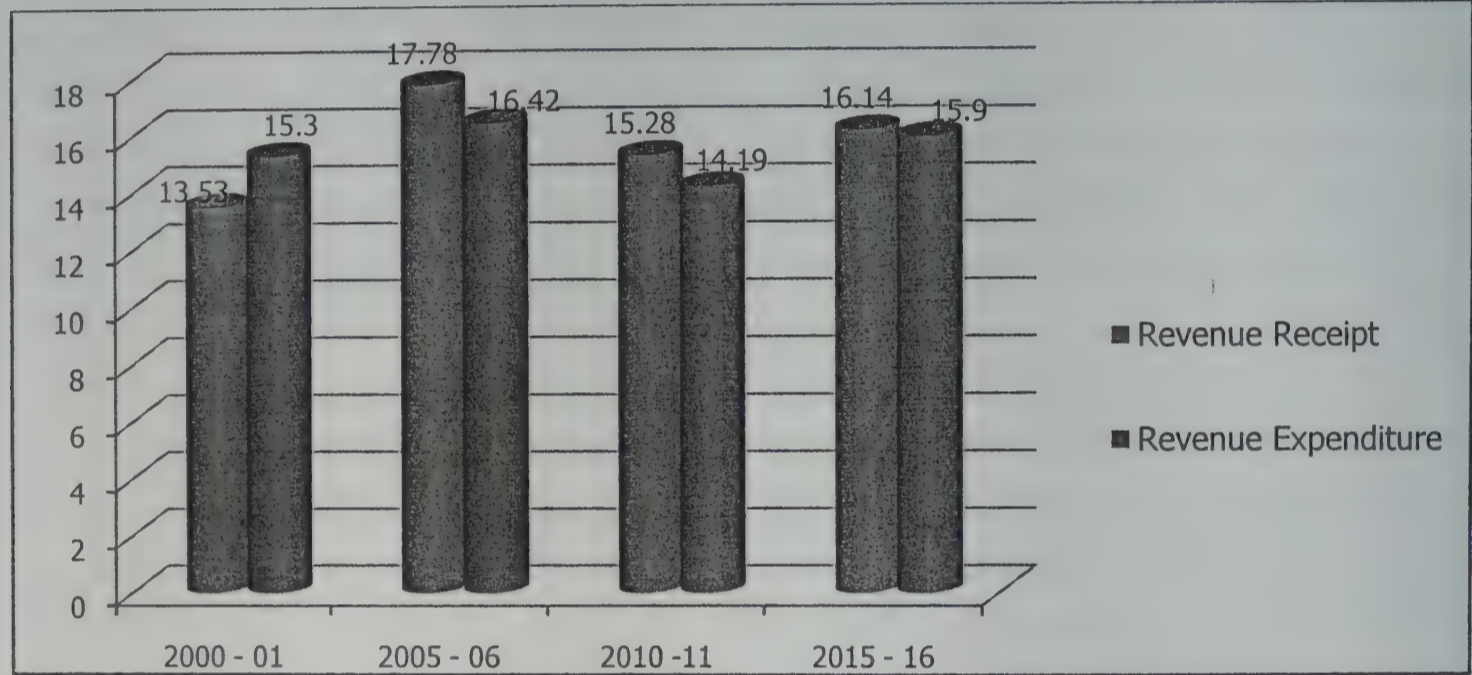
The Three Major Agendas of Fiscal Reform in Karnataka

Revenue reform was started by constituting a Tax Reform Commission in 2000, to improve the tax base and rationalise tax rates (GOK Finance MTFP, 2001). Subsequently, the VAT (value Added Tax) system was also introduced on April 1, 2005 to replace sales tax (GOK Finance MTFP, 2006). Regarding non-tax sources of revenue, from the very first day of economic reform, the govt. wanted itself to withdraw from 'implicit subsidies' because of the poor cost recovery system, especially in secondary and tertiary healthcare services, irrigation, drinking water supply, higher and technical education (GOK Finance MTFP, 2001). As a result, cost recovery in health sector was pushed to scale up from 1.15% in 1999 – 2000 to 2.9% in 2007 – 08 (GOK Finance MTFP, 2003). Revenue deficit was brought down to nil by 2004 – 05 against the target of March 31, 2006 (GOK Finance MTFP, 2012). Thereafter, the state

revenue was always in surplus. However, of late the gap between revenue receipt and revenue expenditure is shrinking. In recent years, ever-increasing subsidy burden (14% of revenue expenditure for FY 2014 – 15), continuous hike in committed expenditure (salary, pension and interest) and disappointing growth in non-tax revenues bring the fiscal pressure back (GOK Finance MTFP, 2015).

Expenditure reform aimed at reducing the financial burden on salary, pension and interest payments. Major reform has also taken place in power sector to unload the subsidy burden (GOK Finance MTFP, 2005). Simultaneously, Karnataka Transparency in Public Procurement Act, 1999, was enacted in the backdrop of reforms, to bring transparency, competition and standardise the cost as well as procurement process (GOK Finance MTFP, 2006).

Graph 1: Revenue Receipt and Expenditure as % of GSDP



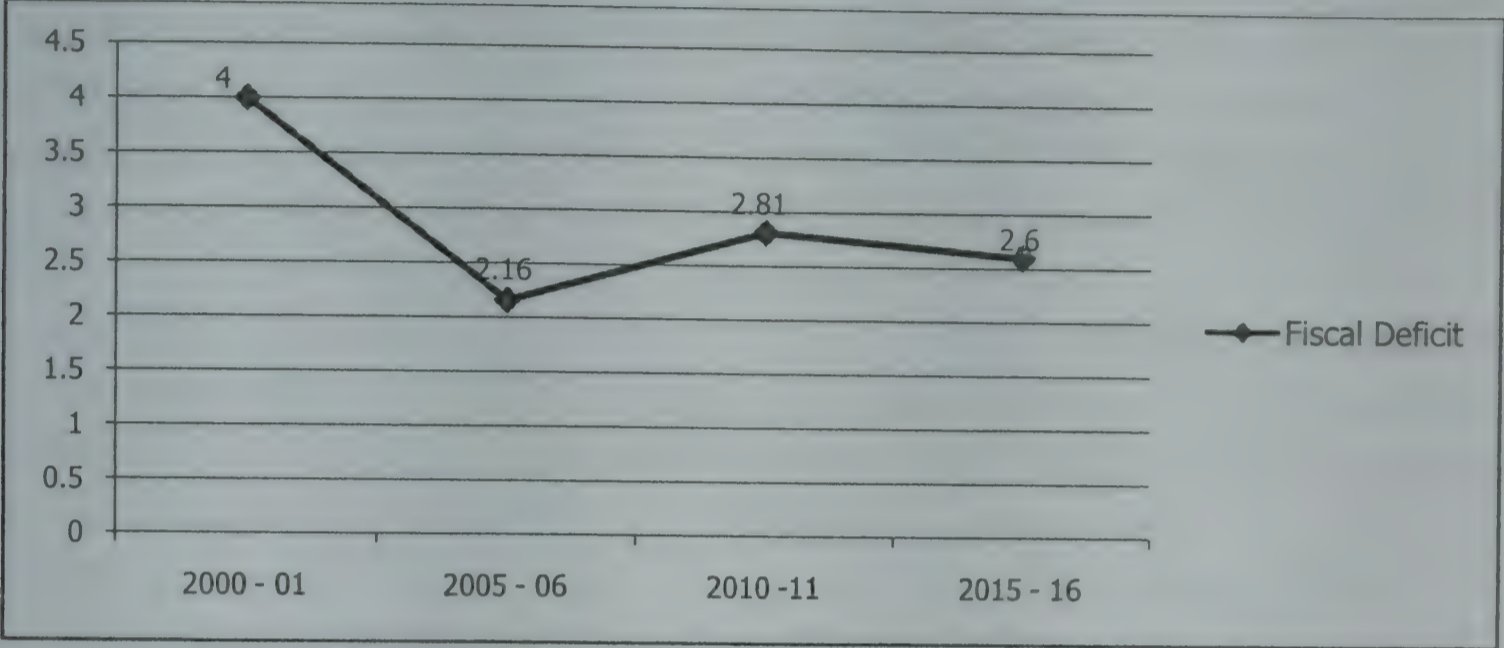
Source: Compiled and calculated from various MTFPs (2002, 2007, 2012, 2017)

<http://www.finance.kar.nic.in/mtfp/mtfp.htm>

The graph no. 1 shows that the fiscal reform reduced the revenue deficit as per the commitment of FRLs. At the beginning of the reform, the revenue deficit was -1.77% of GSDP (Gross State Domestic Product) in 2000 – 01 where revenue receipt and revenue expenditure were 13.53% and 15.3% respectively. The successful implementation of reform management brought down the revenue deficit to nil and even converted into revenue surplus. Karnataka has registered revenue surplus for the financial years of 2005 – 06 (1.35%), 2010 – 11 (1.1%) and 2015 – 16 (0.24%). In-fact, Karnataka never experienced revenue deficit after 2004 – 05. Strikingly, despite fulfilling the KFRA, 2002 obligations, the state could not increase its revenue receipt significantly. From 2000 to 2015, the state has increased its revenue receipt by only 2.64% (from 13.53% to 16.14%) of GSDP. As a consequence, the corresponding growth in revenue expenditure was severely hampered. In the last fifteen years of reform, revenue expenditure is increased by only 0.6% of GSDP. It is a matter of concern that reform process is unable to enhance the revenue receipt and expenditure accounts of the state finance which are crucial for the development of state financing.

Debt management reform was pursued by taking an important decision at the beginning of reform itself that govt. should shift from short term/high cost loan (from market sources) to long term/low cost loan from multilateral (such as, World Bank) and bilateral agencies (GOK Finance MTFP, 2001). Thus the practice of off-budget borrowings was purposefully discouraged by opting for budgetary grants and restricting the mounting debt servicing payments. With the help of FRLs and successful implementation of MTFPs, the fiscal deficit reduced to 2.83% of GSDP by 2004 – 05 (GOK Finance MTFP, 2005).

Graph 2: Fiscal Deficit as % of GSDP



Source: Compiled and calculated from MTFPs (2002, 2007, 2012, 2017)
<http://www.finance.kar.nic.in/mtfp/mtfp.htm>

The graph 2 shows that the fiscal deficit has been brought down from 4% of GSDP in 2000 to 2.16% of GSDP in 2005. The fiscal deficit target was kept within limit as reflected for the years 2010 (2.81%) and 2015 (2.6%).

After the implementation of KFRA, 2002, Karnataka has been consistent in meeting the fiscal responsibility-related obligations unless there is any direction from the Union govt. to cross fiscal deficit limit (for example, fiscal deficit limit was omitted for the years of 2008 – 09 and 2009 – 10 to counter economic slowdown). As per the Thirteenth Finance Commission’s recommendation, KFRA, 2002 had been amended as KFR (Amendment) Act, 2011 to follow the new set of ceilings on fiscal deficit, revenue deficit and outstanding debt as a percentage of GSDP (GOK Finance MTFP, 2012). The 2011 KFRA amendment is another example of a *condition-precedent* set for the states to obtain Union govt.’s specific grants and debt relief measures.

Table 1: Karnataka’s Accounts for Primary Deficit/Surplus in Absolute Value

Years	1990	1995	2000	2005	2010	2015
Value (INR in Crores)	-122.88	-409.08	-1831.7	77.97	-5046.5	-9552.3

Source: GOK Finance Accounts, (2016): Accounts at a Glance (1960 – 2015), Karnataka Finance Dept. (Computer Cell)

It is necessary to mention that during the fiscal reform years, the state finance documents do not give necessary importance to the primary deficit/surplus indicator. Primary deficit/surplus is actually fiscal deficit minus interest payment for debt servicing. Primary deficit/surplus is studied here to understand as to whether the state needs to borrow for paying debt services, i.e. only interest payments. Karnataka's primary deficit indicator is always negative since 1960 – 61 till date except for the years of 2004 – 05 (193.58 Cr) and 2005 – 06 (77.97 Cr). For the first time in the history of Karnataka, primary deficit was positive for those two years (GOK Accounts, 2016). It indicates the state could successfully avert the vicious practice of borrowing in order to pay interests at least for those two years. However, the state had again gone back to the practice of borrowing for paying interest since 2006 – 07. The absence of primary deficit/surplus indicator in fiscal indexing is undermining the vulnerability of revenue collection status in the state in order to meet the compulsion of expenditure requirements and obligation of borrowing to pay debt services (per se, interest payments).

B) Administrative Reform

The second mechanism was formulated as technical assistance to initiate governance reform for better service delivery (World Bank, 2002). It is to be noted that this mechanism is related to governance management still encapsulated under the economic reform scheme. The governance reform has been separately going on in sector-specific areas, such as health service, transport, *panchayat raj* (local governing bodies) etc. and these were few of the most important reforms in Karnataka. It was implemented under KERL 1 to make the management competent for augmenting economic reform and reorient the outlook of other public services for sector-specific areas. Governance reform has been initiated based on two strategic decisions. The first one is to rationalise (or limit) the state's role to deal only with the "most critical public goods and services" that private market is incapable of supplying effectively. Second one is to strengthen the role of the state by increasing its effectiveness, transparency and accountability (World Bank, 2001, Annex D, p. 1).

The main aim behind this mechanism was to strengthen the government bureaucracy for advancing fiscal reform and transform public services (limited to basic needs) to become more accountable. MTFP 2005 – 09 notes the importance of the same effort by mentioning the essentiality of Public Finance Management and Accountability System (PFMAS) to make fiscal policy reform a reality (GOK Finance MTFP, 2005).

C) Private Sector Development

The third mechanism is a tactical strategy adopted to develop private sector in place of public sector. This component was instrumental inclosing/merging the state-run PSUs and promote deregulation of business. The decision was taken "*that investment in Public Sector Enterprises should be restricted to strategic sectors or sectors of social concern and that Government need not continue to involve itself in production of consumer products and marketing enterprises, particularly if they are not generating profits* (World Bank, 2001, Annex E, p.2)". A reasoned argument was that priority of investment needs to be changed from public sector to social sector as per the policies of economic liberalisation. This tactical shift is overtly projected as shift of govt. investment from public to social sector, but within

social sector also the concept of public goods and private goods were introduced. For example, World Bank supported Karnataka Health System Develop Project, 1996 and Karnataka Health System Develop and Reform Project, 2006 guided the state to concentrate only on primary and secondary care (public goods) and let the tertiary care (private good) be left for private sector engagement for health service provisions.

As a part of private sector involvement strategy in public systems, the Krishna govt. constituted altogether ten Task Forces to invite suggestions of non-govt. entities in health, education, Information technology and biotechnology, infrastructure etc. BATF (Bangalore Area Task Force) was particularly important in initiating private sector-led solutions for Bangalore Municipal Corporation (World Bank, 2001). Various were taken up to systematically reduce budgetary support for public enterprises by disinvesting and restructuring. Schemes like Voluntary Retirement Scheme (VRS) were adopted to downscale the workforce (GOK Finance MTFP, 2002).

The sole intention of this tactics is to bring investment from private capital that contributes in high growth and create jobs. It is important to note here that tactics as a reform strategy is not a short-term measure for private sector development mechanism. Tactics is employed as a long-term arrangement to act as an opportunity for disinvestment of public sector, and in turn fetching investment from private sector.

D) Poverty Reduction and Human Development Monitoring

The last mechanism is poverty reduction and human development monitoring. This is in-fact the mechanism to measure the impact of the performance done by the above mentioned three interlinked mechanisms. This mechanism helps in establishing Poverty and Human Development Monitoring System by institutionalising the Human Development Report and enhancing the state's statistical management capacity. The mechanism holds the theoretical relation of the three former mechanisms. Fiscal and public expenditure reform makes the state finance structurally restricted towards public systems financing. The administrative reform is initiated to build the technical capacity of the governance management for implementation of fiscal and public finance management. In third mechanism, the tactical alliance with the private sector has been tried to fill the gap in financing (created through fiscal reform) and right-size as well as de-unionise the workforce (administrative reform). The main assumption behind the private sector development is that private investment leads to high growth, leading to massive job creation and that ultimately reduce the burden of poverty and thus improve the social indicators.

The fourth mechanism is envisaged to capture the success of the very theory propounded by the World Bank; high growth will reduce poverty and improve social indicators. The state govt. echoes the same to accelerate the theory.

As noted in the White Paper on State Finance, 2000 (GOK Finance MTFP, 2003, Box 1):

"The White Paper's recipe to break out of this fiscal conundrum into a virtuous cycle of fiscal balance, high growth and poverty alleviation, was the reform troika of elimination of revenue deficit to free internal resources for enhanced priority sector

spending, improvement in efficiency of public spending and facilitating private sector development.”

This reform strategy is not changing any structure of the economy or management of the governance but developed as an 'evidence' to track and maintain the theoretical success of the fiscalised development model. Though apart from the theoretical reform, special drive for poverty alleviation has always existed. As per Karnataka Development Report (KDR), 2007, Karnataka has fifteen poverty alleviation programmes run by the state govt. other than the nine centrally-sponsored poverty alleviation and employment generation programmes (KDR, 2007). They are important for the Bank as well as for the state in the long run to keep the reform momentum alive and neutralise any adverse effect of reform. This fiscalised development model is the backbone of the Karnataka's economic restructuring.

Governance Reform

There is perennial confusion between fiscal and governance reform. Often the dividing lines are blurred between the two reform processes. In theoretical understanding, governance reform is to improve the service delivery management whereas the fiscal reform is to improve the financial management of the state accounts. Governance reform is the pre-condition for achieving the fiscal reform (Saxena, 2001 as cited in Howes, Lahiri and Stern, 2003). Tax, revenue, expenditure management are part of governance exercise. The more efficient governance is expected to bring more sound fiscal management.

This economic restructuring of Karnataka gives scope for a discussion on the state's efforts in the area of governance. As mentioned earlier, governance reform in Karnataka has been instrumental in sector-specific areas. The sector-specific reforms have distinct design of their respective reform processes but fundamentally committed to the two of the basic tenets of the fiscal reform strategies — techniques and tactics. The objective of the governance reform is to enhance the quality and access to service delivery. The goal of governance reform is to fulfil the technical and tactical strategies of the fiscal reform.

The tactical and technical part of the governance reform is often interrelated and interdependent. For example, the Karnataka Administrative Reform Commission (KARC), 2001 report is a combination of technical inputs and tactical solution. The commission's report is a strategic document of the administrative-reform mechanism to identify the lacunas exists in governance management. The technical findings of the report suggest that many departments were overstaffed with overlapping functions. The staff composition also did not commensurate with the workload of the department at state and district levels. The same strategic document uses privatisation as a tactical strategy to implement the technical inputs received from the KARC, 2001 to meet the reform norms. Hence, the tactical solutions of the KARC, 2001 was outsourcing of support services (housekeeping, dietary, catering and security) and technical services (maintenance and innovations) in govt. offices and institutions to curtail the workforce and make savings.

This section provides an understanding of the tactics improvised and techniques formulated to change the organisational and operative outlook of the governance management of the state.

Tactical Strategies

The reform improvised three major tactical strategies (privatisation, decentralisation and participatory management) for implementing the reform agendas. The reasons for those strategies are not under the purview of governance decisions. The reasons were adopted as per the guidelines of economic restructuring programme and fiscal reform necessities.

Privatisation:

Already fiscal space management section briefs about private sector engagement as a reform agenda. The reasons behind the privatisation of public sector units are service efficiency and cost minimisation. The intention behind privatisation is that the outsourcing of work to private agency increases the accountability of the service delivery. Similarly, right-sizing the human resource decreases the administrative cost to the govt.

Privatisation has been executed in two ways, privatisation of services and disinvestment/closure of public sector units. KDR (2007) notes that privatisation has been widespread in health and education sector. In health sector, govt. adopted two specific practices, i.e. outsourcing of services and application of user fees to privatise the system. Contracting out NGOs to run PHCs and handing over hospital to corporates are the instances of privatisation of health service facilities as well as services. Privatisation was also encouraged by opening up the service for competition (like, in transport sector and in power distribution) and giving autonomy to the institution for target achievement.

The spirit of the fiscalised development model is reflected in the World Bank guided policy paper on "Public Sector Reform and Privatisation" which was approved by the GOK Cabinet to withdraw state intervention from all commercial activities through either sale or closure. Importantly, the policy also guides that PSUs involved in non-commercial activities to be merged/reorganised and even at times, may also open to other stakeholders for strategic partnership. Subsequently, various committees have been set up under the body of Public Sector Restructuring Commission to either close or disinvest the loss making PSUs in phases (World Bank, 2001).

Another tactical move towards privatisation is the deregulation of the business environment. In this occasion too, the Bank led policy paper got the approval of the GOK Cabinet to streamline and simplify regulations, rules, procedures and upkeep of records. As a result, Karnataka Udyog Mitra was formed as a nodal agency for business investment and introduced combined application form as a single window system for all investment related works (World Bank, 2001). Thus, tactical strategies were formulated to develop private sector in the state.

Decentralisation of governance:

The decentralisation politics has deep roots in the history of Karnataka state polity. In recent history of the state politics, it started in 1980 and finally enacted as a legislative Act in 1985 followed by its implementation in 1987 election. Finally, the Seventy-third Constitutional Amendment in 1992 paved the way for Karnataka Panchayat Raj Act, 1993 (Aziz, 2000). Decentralisation is also acknowledged in the World Development Report, 2000/2001 as a pro-poor solution to alleviate poverty (WDR, 2000). The

fiscalised development model certainly uses the state's decentralised orientation of governance to execute various sector-specific reforms.

The decentralisation component of the administration is used to suffice the purpose of political intervention as well as economic restructuring. The significance of decentralisation in the Bank's model of fiscalised development made it easier for the state to formulate a parallel initiative to keep alive its political legitimacy by using the decentralisation as a tool for development. Karnataka govt. constituted High Power Committee for Redressal of Regional Imbalances (HPC RRI), 2000 (known as Nanjundappa Committee) to address regional disparity. The analysis of the committee report (submitted in 2002) is based on the *Taluk* level, with an aim to promote *Taluk* as main micro-level planning unit (HPC RRI, 2002). This is an important move to set *Taluk* as a nodal point for development which recognises the structure of decentralisation as well as the viability of grassroots-based development politics. HPC RRI is indeed an improvised mechanism from the state's side to remain politically viable using PRIs under the new narrative of development. Decentralisation is used as a political choice for development practices, i.e. equity (one of the two components of Karnataka Model of Development). Oppositely, the World Bank's model has used decentralisation as a tactical choice to expedite the reform process.

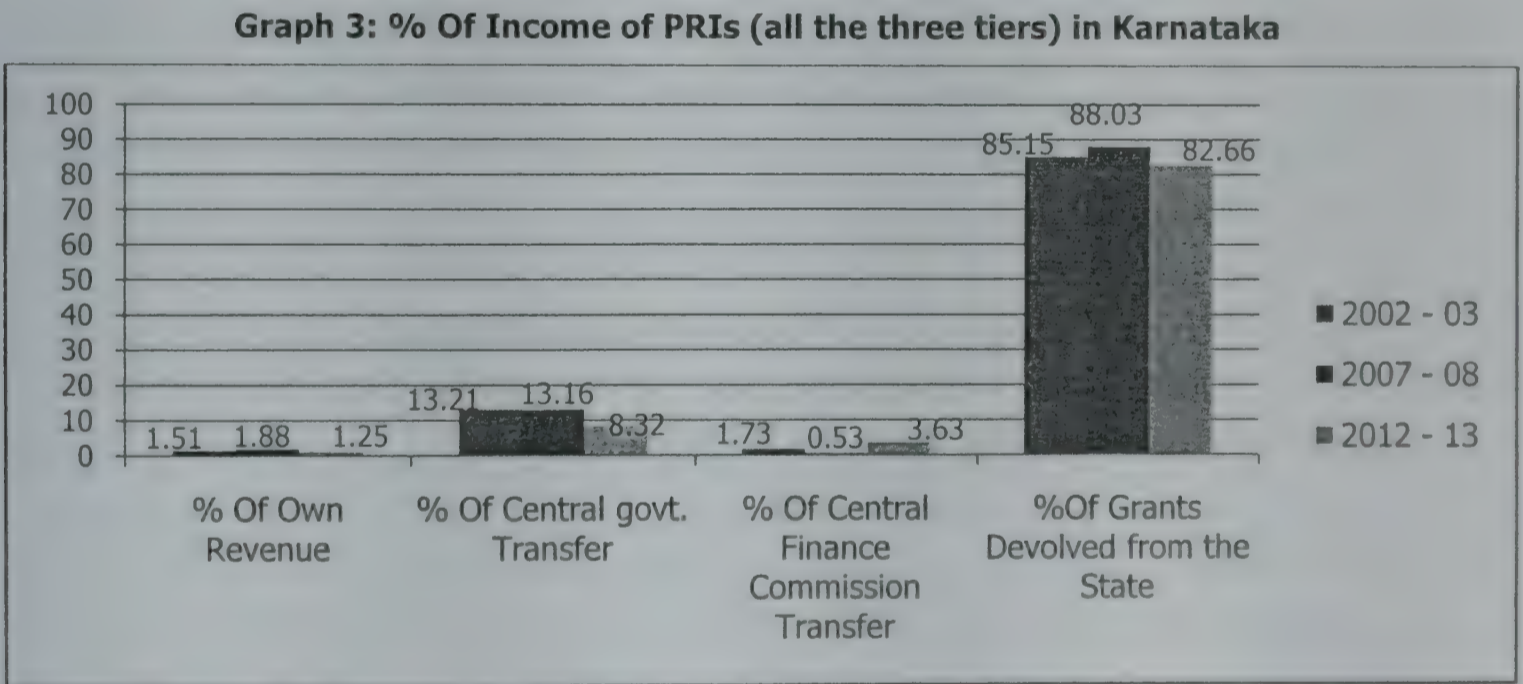
Political decentralisation is a reality of the Karnataka model of decentralisation. The reservation for female members (25%) in *panchayats* was ratified much before the Parliamentary Act came into existence (Kumar and Sangita, 2011). The backward caste representation is also satisfactory (KDR, 2007). The voter turnout for TP (*Taluk Panchayat*) and ZP (*Zila Panchayat*) is more than assembly and parliament elections. However, there is a trend (30% in 1993 and 27.7% in 2007) in GP (*Gram Panchayat*) elections that many candidates win unopposed. It shows the presence of traditional power structure in PRIs (KDR, 2007). Another study reveals that poor knowledge about the functions and budget of *panchayat*, and low level of importance of *gram sabhas* (GS) among the elected members and people is a persistent crisis (Babu, 2010). In Tumkur district, the GSs are often socially, politically and gender wise exclusive in decision making processes even though they are conducted regularly to make budget and planning (Kumar and Sangita, 2011). It indirectly indicates the crisis of inclusive empowerment for *panchayat* members as well as lack of involvement of people in the decentralisation politics. Aziz recently laments that despite achieving vertical decentralisation (through political and economic power), the increasing threats of dynastic politics curbs the prospect of horizontal decentralisation (sharing power and opportunity) for different social groups (Aziz, 2016).

Administrative decentralisation happens with regards to the management of functions but not at the degree of decision formation. The ULBs (Urban Local Bodies) are responsible for providing roads, bridges, water supply, public health and sanitation, solid waste management and some other amenities. The state has transferred all the eighteen functions delegated to the ULBs as per the Twelfth Schedule (Gayithri, 2015). State has also transferred all twenty-nine functions to the PRIs as per the recommendation of the Eleventh Schedule (KDR, 2007).

The administrative decentralisation is facing several challenges. The capacity and availability of the staff are a matter of concern in all the three tiers of the *panchayat* system. District Planning

Committee (DPC) is the most essential instrument of the *panchayat* administration. Study shows that many district DPCs are not formed or even formed then not very active (Kumar and Sangita, 2011). Further, the presence of various parallel bodies (such as village health committees, education committees, water users’ bodies etc.), regional development boards underscore the autonomy and importance of the PRIs (KDR, 2007). Similarly, the obligation of tied funds persists since the beginning of *panchayat raj* system to continue the dependency on state and central funding. This hardly gives any scope to ZP or TP to plan according to their need. They usually plan for the programmes/schemes they are already entrusted upon. This very nature of governance actually negates the original idea of normative process of planning (integration of plan from GP to TP to ZP) as recommended in 73rd Constitutional Amendment (Babu, 2010).

Financial decentralisation is a contentious issue in the state. The taxation power (for some items) is only with the *Gram Panchayats* (and also with ULBs) in three tier *panchayat* system. Hence, the ZP and TP are acting merely as implementing agencies for the schemes (either loan/grant-in-aid mode) funded by the state/union govt. (Rao, Nath and Vani, 2002 and KDR, 2007). GPs total share in the overall *panchayat* expenditure is less than 6% (Rao, Nath and Vani, 2002).⁽³⁾ This extremely low level of expenditure at the GP level restricts the participation of people in planning and implementation as GP is the primary interface between *panchayat* system and people. Aziz (2000) questions the rationale behind this practice and warns that this distorts the philosophy of decentralisation.



Source: Gayithri, 2015, p. 163

The status of PRIs’ own income generation is a matter of disappointment. The graph no. 3 reiterates the poor state of income of PRIs from own sources which is always below 2% between 2002 – 03 and 2012 – 13. This own amount of income is actually GP-level collection since the TP and ZP do not have any power to collect taxes. All other forms of assistance are either state devolved or central assistance. State continues to command above 80% of income sources for the PRIs. PRIs are striving for their own revenue collection sources to gain and retain the autonomy. State is also ignoring the

suggestion of Second and Third State Finance Commissions' recommendations regarding the sharing of royalty for mines and minerals which comes under the jurisdiction of the PRIs. Certainly, the dependency level of *panchayat* system on state and central is high since the most of the fund is in the form of loan/assistance/grant from state/centre level which financially as well as administratively controls the PRIs.

The financial dependency of PRIs forces them to remain implementer rather than planner. Aziz found in 1993 that local bodies are better in implementation than planning in Karnataka. The workforce needs more technical and institutional strengthening along with political and financial autonomy (Aziz, 1993). The reform process too has been using decentralisation as a tactics for implementation purpose and thus the shortcoming of the decentralisation remains the same. The administrative and financial decentralizations are restricted because of the economic restructuring of the state. The centrally-sponsored schemes and state-sector fund are developed based on the projects/programmes of the sector-specific reform which comes with certain condition and predetermined goals. Certainly, they do not allow any locally-oriented planning. Hence, the fund devolution (financial accountability) and administrative responsibility (reporting, target management) are linked to those schemes. This form of reform probably contradicts the original philosophy of decentralisation, i.e. community owned and managed government.

The tactical dependency on decentralisation is coming from the need to make the reform participatory and horizontally expand the vertical nature of the growth benefit. Decentralisation as a catalyst to eradicate poverty is not showing many positive evidences. Rajasekhar, Gayathridevi and Satapathy (2007) finds the poverty eradication programme entitled *Swarnajayanti Gram Swarajgar Yojana (SGSY)*, started in 1999, is fashioned after the model of 'decentralisation for development' to serve as a medium between state and society. The Karnataka's experience with this programme has not shown satisfactory results.

The reason for linking the state and society is to increase participation and empower the community. The involvement of people could generate demands for good governance from the community itself. It is therefore important to study as to whether several reform-led schemes are enhancing the participation as well making people empowered.

Participative management:

Apart from the decentralised institutes, parallel bodies have also come up to make reform more democratic and publicly acceptable. Two forms of bodies are formed. User groups/citizen groups (like, *Roogi Kalyan Samiti* in health sector reform) get formed to take part in the grassroots-level management and decision-making process of the service delivery institutions (such as, Primary Health Centres) (KDR, 2007). The main problem with these parallel bodies is that they often undermine the importance of PRIs. They are aided with small amount of financial and autonomy power. Similarly, deliberative councils (various Task Forces, like BATF) come into existence where representatives from private sector and civil society join on the same platform with public servants and peoples' representatives to give policy inputs (KDR, 2007).

Technical Strategies

Governance reform's executive performance depends on technical strategies. Ideally, technical part is to be preceded by the tactical part. The mechanisms chosen for technical intervention are considered to be the core of governance reform and play an important role in the outcome of the reform. In Karnataka, the overall (and not sector specific) fiscal-led governance reform were carried out under the mechanism of administrative reform.

Administrative reform:

Governance reform is based on the foundation of administrative reform. As discussed in the economic reform section, administrative reform is a technical strategy of the fiscalised model of development to ensure the smooth passage for the fiscal reform and deliver good governance.

Karnataka has constituted Administrative Reform Commission (KARC) in 2001. It is a part of KERL 1 project mechanism where six components (civil service reform, freedom of information, service agency reform, anti-corruption initiatives, decentralisation and e-governance) have been introduced as per the guidelines of the Bank (World Bank, 2000). These components are responsible for governance management and strengthening service delivery. Administrative reform is a set of technical guidelines in the form of transparency, accountability, effectiveness and efficiency to strengthen the tactical move (development of private sector and restrict the public system to basic services) of the governance reform.

Transparency: The govt. has tried to establish transparency by simplifying the filing system, computerisation of accounting works, streamlining of tax and licence systems, introducing single window system for investment stimulus (procedures) and setting-up of regulatory authority (regulations) within the government system with an aim to simplify the administrative works and limiting the corruption (KDR, 2007). Similarly, these procedures and regulations were backed by the legislative actions. The Second Karnataka Economic Restructuring Loan report acknowledges the importance of legislative backing for reforms in India. Karnataka has altogether made seven laws to fulfil the transparency criteria of reform. Electricity Reform Act, Anti-Power-Theft Act, Transparency in Public Procurement Act, Ceiling on Govt. Guarantees Act, Fiscal Responsibility Act and Industry Facilitation Act and Right to Information Act were enacted at the beginning of reform process (World Bank 2003). The legislative backing is the key for the GOI and World Bank to make the state accountable to the people as well as taking the onus of reform performances.

Effectiveness: Karnataka has jumped into e-governance bandwagon to ensure effective service delivery. It is one of the most progressive states in utilising the benefit of ICT (Information Communication Technology). It established a computer centre way back in 1971 to computerise govt. departments. Various e-governance schemes have been introduced to make information accessible to the people and increase efficiency of the govt. works. *Bhoomi* (land records), *Khajane* (treasury system), *Kaveri* (land registration), *Mahiti* Centre (IT Kiosks) are few of the examples of successful e-governance projects (KDR, 2007).

In the reform context, though the decision is influenced or inspired by an external entity (like, international institutes/committee/commission etc.), the effectiveness of the decision depends on the system's administrative capacity. For instance, all the six districts of Hyderabad – Karnataka region has got special status of reservation for locals under the Article 371(J) in govt. jobs and education institutes in 2012 after the recommendation made by the HPC RRI, 2002 (HPC RRI, 2002). Notwithstanding the decision, the administrative snags make the task difficult for the residents of the Hyderabad – Karnataka region to avail the reservation with dignity and fairness (Buradikatti, 2015).

Efficiency: Civil service reform is one of the major recommendations of KARC to bring efficiency in the governance management. World Bank report mentions in the year of 2000 that politicization and premature transfers are the jolts in the administration. Thereafter, GOK introduced the New Transfer Policy, 2001 as well as recruitment policy (Word Bank, 2001 and KDR, 2007). However, it is doubtful whether the policies are followed in letter and spirit.

Accountability: Corruption is a persistent crisis in Karnataka's governance management and that always affects the service delivery negatively. The reform period initiated number of measures to curb corruption. Empowerment of *Lokayukta*, implementation of Citizens' Charters, initiation of social audit in rural and urban local bodies, public hearing (water *adalat*) and online complain registry are some of the reform measures Karnataka has adopted to make public service accountable (KDR, 2007). The agenda is to bring accountability to make service delivery effective.

Decentralisation-dependent activities are also part of the administrative reform's suggestion. Decentralisation is a political structure where the local-level institutions are the base for governance management. Karnataka always had a good base for decentralisation politics. Using the already existing structure of decentralisation is a tactical strategy of reform expansion but making the same structure conducive for managing the reform agendas is a technical assignment. Hence, using the decentralised bodies/institutions are tactics but to make them capable (by bringing transparency, effectiveness, efficiency and accountability) for advancing reform is a technical necessity. On one hand, these administrative reforms have technically improvised laws, regulation, rules and management procedure to make governance system robust, while on the other, the same laws, rules, regulation and procedures are tactically applied on the structure of decentralisation systems (to deliver basic services), and facilitated the private sector to develop.

The 'Reformed' Model of Development

The reform has changed the philosophy of the state polity, anatomy of the economic structure and orientation of the governance management. This reform is celebrated as Karnataka Model of Development which professes that technology-led (mostly Information and Bio-Technology) growth combined with decentralised governance can address the challenge of achieving "growth tempered with equity" (Kadekodi, Kanbur and Rao, 2008, p. 17). This model of development is not exactly the World Bank guided model. This model is crafted as 'growth with social justice' by the state. It is acknowledged by the state leadership that growth alone cannot ensure equitable distribution of income and other

resources (HP CCI, 2002, chapter - 34). Hence, the model mixed the assurance of equity with the prospect of growth to pronounce as a macro-economic statement.

The World Bank has guided the reform process which is based on fiscalised development (as explained earlier) model. However, the presence of decentralisation component in the fiscal-led governance reform made it easier for the state to appropriate its long trusted political tool within the planned Karnataka development model. The Karnataka development model is developed from the confidence of the World Bank's fiscalised model but adjusted to the state's long tradition of development-based politics. This adjustment conjures the promise of fiscalised development (growth) with the commitment of the state's own developmental politics (decentralisation) in collective spirit to ameliorate as 'reformed model of development'. The tradition of decentralised politics is co-opted within the fiscalised development model for the purpose of administrative necessities. The normative planning of decentralisation is ignored but not its political legitimacy.

The presence of decentralisation component in the Karnataka development model convinces scholars to argue that Karnataka development model is actually derived from the "Mysore Model". The foresightedness of the Mysore Modernity (led by Wodeyars and their *Dewans*) in early twentieth century paved the way for building many academic institutions to generate skilled human resources in science and engineering and that eventually helped in developing a temperament for scientific and technological innovation. Bengaluru's emergence as an IT capital of India is a result of these historical proceedings (Kadekodi, Kanbur and Rao, 2008). Indeed, the easy availability of skilled human resources is a factor for IT-driven growth but that growth is state led or state supported. The fundamental difference between these two models is while Mysore modernity was a state-led development, the modern Karnataka's development model is a state-supported, private capital-led development. This difference raises question on various governance reforms to know how the state is acting as a facilitator to advance private capital led development.

The reform in its nascent stage was benefitted by the enthusiasm and commitment of S M Krishna. Mr Krishna is not only an important character in the reform discourse but also a change maker in the political strategy of state's economic development. The style he adopted for co-opting corporate representatives in various deliberative councils (like, the composition of BATF) had inadvertently reduced the importance of elected representatives in policy-making process. This move allowed the state formally to accommodate the private interest. Similarly, private entities also got the privilege to pursue this opportunity for their own benefit. Pani (Pani, 2006) notes this new form of governance arrangement at the top level of state secretariat has profoundly influenced to develop a new form of state – society interaction. This is the tipping point when the market replaces politics in planning and organising economic development through policy framing. Gradually, the political class has also adjusted itself with this new mode of policy making.

Mr. Krishna's promulgated model of development could not secure the confidence of the pro-reform Institutions (as both the World Bank and GOI refused to offer further loan for reform) as well as was unable to gain the mandate of the people. However, the essence of the model has remained at the centre of the macro-economic statement for the state. Thus this model has in incremental way made the path for the private entities to establish long-term strategic interest with the political class, but

furthermore, the model in-fact gave private entities access to the functioning on the public directives. This development is not the departure from the model's primarily advocated agenda, 'growth tempered with equity' rather an inevitable outcome of the very advocacy.

The Karnataka model of development has suffered from two blots. The first pillar, decentralisation, remains an idea of its original value and instead being used as a special purpose vehicle for reform as discussed under the section of governance reform. For example, social audit for various development programmes, implemented under decentralised governance structure, has been introduced to check corruption and ensure delivery at the grass root. Study finds that social audits are not effective as the audit and vigilance teams are heavily influenced of social and political hierarchies and often indifferent to serve the interest of poor (Lakha, Rajasekhar and Manjula 2015).

The second pillar, IT and Biotechnology growth is flourishing in the developed structure of Bengaluru. However, a question arises as to how much this growth has made an effect in rural Karnataka, or in particular regionally backward part of the state. Pani (2015) critiques that industrialisation in Karnataka has always been Bengaluru centric from Mysore Wodeyar's time to post-liberalisation era. Since Bengaluru is located in the South Karnataka region, the benefit of the growth has been mostly gone to the already developed region. It further broadens the gaps of regional imbalances with North Karnataka (Pani, 2015).

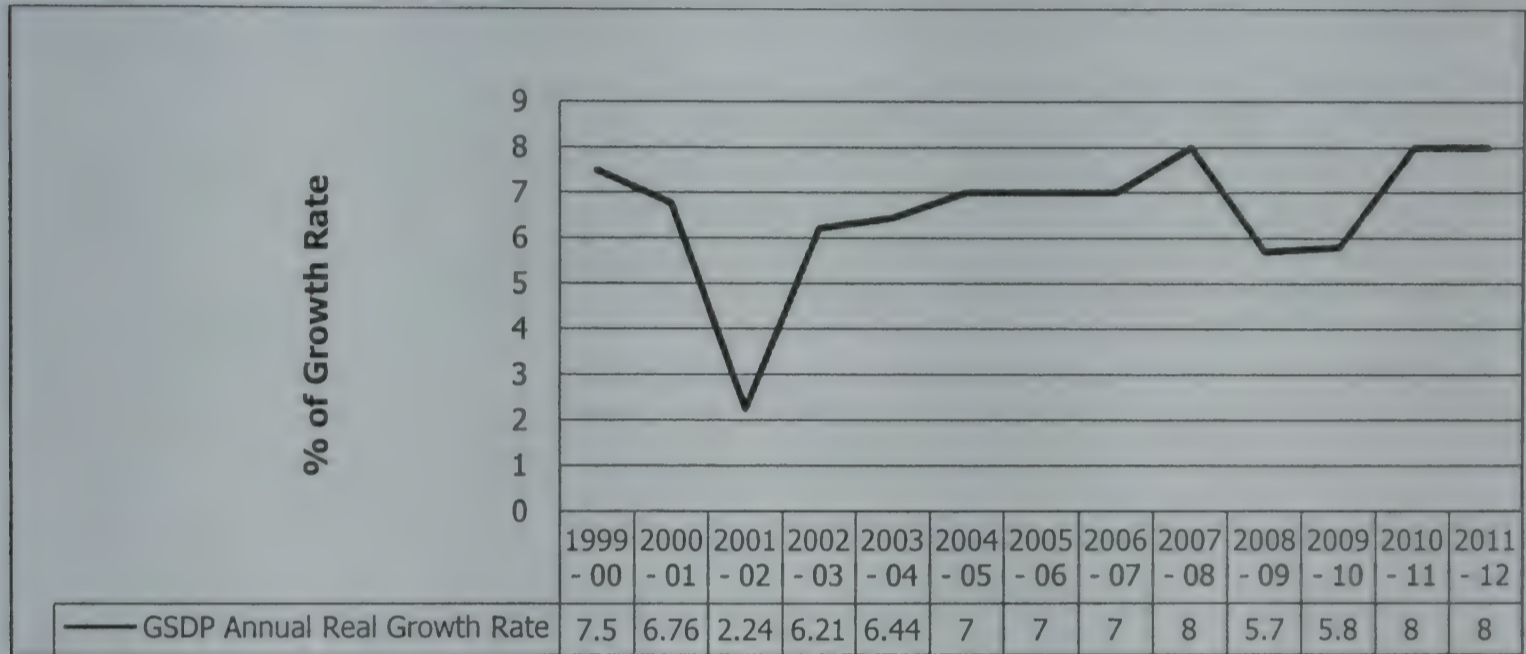
The Karnataka Development model is an innovative experiment. The experiment was based on the dependency of external assistance (especially from the World Bank), both in the forms of fund and technical supports, and political farsightedness. The experiment had its first jolt while the fund for KERL 3 was disapproved (after being delayed by one year) in 2004 by the Bank on the grounds of deteriorating political commitment (partially arrested by the dispute over Cauvery water, death of a former Minister under the captivity of forest brigand Veerappan), inadequate reform measures in power sector, lack of business deregulation, and deferring the advisory on agricultural tariff hike (World Bank, 2003). The Bank also objected the state's strategy of "*reform through consensus*" which succumbed at the face of "*resistance from vested interests*" (World Bank, 2003, p.29).

The denial of KERL 3 had severely disrupted the state's own fiscal management plan as it was interlinked to financial assistance of the external funding and incentives from the Union govt. Mr. Krishna registered his protest to GOI for depriving Karnataka from the Bank's structural adjustment loan assistance over Andhra Pradesh (Arun, 2004). The second attack on the Karnataka development model was the departure of S M Krishna as CM after failing to secure absolute majority in the state assembly election of May 2004. Post S M Krishna period, Karnataka has moved ahead with the reform agenda, modelled after fiscalised development. After each passing year, the model of Karnataka development has been ostensibly getting diluted to the fiscalised development model.

The main declarations behind the fiscalised development model were the increase of growth rate and restructuring of public finance. These declarations should not be considered as means for only economic restructuring rather they have been designed with an agenda to 'redefine the role of the State'. The portion of public expenditure in GSDP got reduced from 23.3 % to 19.45 % between the year of 2002 – 03 and 2013 – 14 BE (Gayithri 2014). The decreased public expenditure indicates reducing role of the State especially in the organisation of public systems. The growth rate scenario was

also not offering anything convincing. The graph no. 3 shows that over the period of thirteen years, the annual real growth rate of GSDP (Gross State Domestic Product) increased from 7.5 % (1999 – 00) to 8 % (2011 – 12). The average growth rate was 6.58% for the entire period. The lowest growth rate recorded for the year of 2001 – 02 at 2.24% while the highest was 8% for 2007 – 08 and later on for two consecutive years (2010 – 11 and 2011 – 12). The annual real growth rate data shows that despite the model being implemented since the beginning of the 2000, the impact on growth rate was not very significant for next eleven years. The fundamental question to the fiscalised development model is that how come the fluctuating growth rate can deliver equity.

Graph 3: GSDP Annual Real Growth Rate (in Current Prices)



Source: Compiled form different MTFPs(2001, 2005 – 2009, 2008 – 2012, 2011 – 2015, 2013 – 2017), Karnataka Finance Department.

Karnataka is still on the path of the fiscalised development where the accountability of the state is decreasing at the cost of the involvement of private sector. The current regime of the INC and its propaganda on inclusive development is a noticeable political move at present. The government’s announcement of many pro-poor schemes, especially targeting the farmers, plays significant roles in changing the public perception about political intervention in governance management. The present Chief Minister, Mr. Siddaramaiah’s much publicised AHINDA philosophy propounds for an inclusive development which aims to cater to weaker section, especially minorities, OBCs and Dalits. Though the moves are politically well-committed, their impacts are yet to assess at a large scale. It is interesting that this political will has again resurfaced to talk about development inclusiveness. Is this a course correction due to aggressive reform leading to excessive income inequality and causing the distress for socially and economically the neglected sections? Only time will tell whether this new move will change the political discourse followed by the shift in development planning again in Karnataka or remain as it is.

This paper intends to do process analysis of the reform period to identify and explain the role of reform instruments (strategies, techniques and tactics) in restructuring the state economy and reorienting the governance system. It suggests that contextual determinants to be studied thoroughly

Handwritten notes and stamps at the bottom right of the page, including "JE-V-VIO", "16647 PE", and a circular official stamp.

to understand governmental rationality exercised behind policy decisions. It argues that reform outcome should be measured against the success of reform instruments (process indicators) instead of only depending on impact indicators.

Notes

- ⁽¹⁾ Actual values are mentioned in the reference documents as Billion/Million unit of USD. The INR figures in Crores are calculated retrospectively as per the exchange rate of the respective years.
- ⁽²⁾ Off-budget borrowing is the loans incur from the market (through various corporations) are not part of state budget but the debt servicing of those loans (both principal and interest amount) directly fall on the budget.
- ⁽³⁾ It is important to note that this expenditure calculation was based on the Twelfth Finance Commission's Report. Thereafter, both the Thirteenth and Fourteenth Finance Commission Reports do not give the segregated expenditure of three tier *panchayat* system. Hence, it is the last representable segregated expenditure level data for *panchayat* system in Karnataka.

References

- Arun, S B (2004). Deja vu: AP Gains at State's Cost. *Deccan Herald*. Retrieved from <http://archive.deccanherald.com/deccanherald/feb142004/n14.asp>.
- Aziz, A (1993). Appraisal of the Experiment. In *Decentralised Planning: The Karnataka Experience*. New Delhi, India: Sage.
- (2000). Democratic Decentralisation: Experience of Karnataka. *Economic and Political Weekly*, 35 (39): 3521-26. Retrieved from <https://www.jstor.org/stable/4409779>.
- (2016). Against the Concept of Decentralisation. *The Hindu*. Retrieved from <http://www.thehindu.com/todays-paper/tp-national/tp-karnataka/against-the-concept-of-decentralisation/article8212705.ece>.
- Babu, D (2010). Decentralised Planning in Karnataka: Realities and Prospects. *Social and Economic Change Monographs 19*. Retrieved from Institute for Social and Economic Change website http://www.isec.ac.in/Monographs_19.pdf.
- Buradikatti, K (2015). Exclusive website for information on Article 371 (J). *The Hindu*. Retrieved from <http://www.thehindu.com/news/national/karnataka/exclusive-website-for-information-on-article-371-j/article6748349.ece>.
- Gayithri, K (2015). *Evaluation of State Finances of Karnataka*. Submitted to the Fourteenth Finance Commission, Government of India. Bangalore. Retrieved from http://fincomindia.nic.in/writereaddata%5Chtml_en_files%5Cfincom14/others/11.pdf
- (2014). Public Expenditure in Karnataka: A Sectoral Analysis. In *Budget for Inclusive Development, A Critical Analysis of Recent Budgets of Karnataka* (monograph). Bangalore, India: Centre for the Study of Social Exclusion and Inclusive Policy, National Law School of India University, Bangalore. Pp 76-97.
- GOK Finance MTFP (2001). *Medium Term Fiscal Plan for Karnataka 2000-2001 to 2004-2005*. Finance Department, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/mtfp/mtfp-2001.pdf>.
- (2002). *Medium Term Fiscal Plan for Karnataka 2002-03 to 2005-06*. Finance Department, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/mtfp/mtfp-2002.pdf>.

- (2003). *Medium Term Fiscal Plan for Karnataka 2003-04 to 2006-07*. Finance Department, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/mtfp/mtfp-2003.pdf>.
- (2005). *Medium Term Fiscal Plan for Karnataka 2005-2009*. Finance Department, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/mtfp/mtfp05-09.pdf>.
- (2006). *Medium Term Fiscal Plan for Karnataka 2006-2010*. Finance Department, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/mtfp/mtfp06-10.pdf>.
- (2012). *Medium Term Fiscal Plan for Karnataka 2012-2016*. Finance Department, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/mtfp/MTFP2012-16-Eng.pdf>.
- (2013). *Medium Term Fiscal Plan for Karnataka 2013-2017*. Finance Department, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/bud2013july/MTFP%202013-17Eng.pdf>.
- (2015). *Medium Term Fiscal Plan for Karnataka 2015-2019*. Finance Department, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/bud2015/mtfp2015-kaneng.pdf>.
- GOK Finance Accounts (2016). *Accounts at a Glance for 1960-2015*. Finance Department, Computer Cell, Govt. of Karnataka. Retrieved from <http://www.finance.kar.nic.in/stats/1960-2015BE-final40yeardoc.pdf>.
- Howes, S, Lahiri, A K and Stern, N (eds) (2003). Introduction. In *State Level Fiscal Reform in India: Towards More Effective Government*. New Delhi, India: Macmillan.
- HPC RRI (2002). High Power Committee for Redressal of Regional Imbalances (*Dr. Nanjundappa Committee Report*). Govt. of Karnataka. Retrieved from <http://planning.kar.nic.in/sdc.html>.
- Kadekodi, G, Kanbur, R and Rao, V M (eds) (2008). Introduction. In *Development in Karnataka, Challenges of Governance, Equity and Empowerment*. New Delhi, India: Academic Foundation. Pp 17-34.
- KDR (2007). *Karnataka Development Report*. Planning Commission, GOI. New Delhi, India: Academic Foundation. Accessed through ISEC Library in Bengaluru.
- Khuntiya (2003). Fiscal Reforms, the Experience of Karnataka. In Howes, S, Lahiri, A K, Stern, N (eds), *State Level Fiscal Reform in India: Towards More Effective Government*. New Delhi, India: Macmillan
- Kirk, J A (2007). Economic Reform, Federal Politics and External Assistance: Understanding New Delhi's Perspective on the World Bank's State Level Loans. In R Mukherji (ed), *Indian Economy in Transition*. New Delhi, India: Oxford University Press. Pp 265-99.
- Kumar, A Vaddiraju and Sangita, S N (2011). Introduction. In *Decentralised Governance and Planning in Karnataka, India*. New Castle, United Kingdom: Cambridge Scholars Publishing.
- Lakha, S, Rajasekhar, D and Manjula, R (2015). Oxford Development Studies Collusion, Co-option and Capture: Social Accountability and Social Audits in Karnataka, India. *Oxford Development Studies*, 43 (3): 330-348. <https://doi.org/10.1080/13600818.2015.1049136>
- Narayana, M R (2008). ICT Sector and Economic Development: Evidence from Karnataka State. In G Kadekodi, R Kanbur and V M Rao (eds), *Development in Karnataka, Challenges of Governance, Equity and Empowerment*. New Delhi, India: Academic Foundation. Pp 291-322.

- Pani, N (2006). Icons and Reform Politics in India, The case of S M Krishna. *Asian Survey*. 46 (2): 238-56. Retrieved from <http://www.jstor.org/stable/10.1>
- (2015). Towards a Location-sensitive Policy for Manufacturing in Karnataka. *Journal of Social and Economic Development*, 17 (1): 50-65. <https://doi.org/10.1007/s40847-015-0001-8>.
- Rajasekhar, D, Gayathridevi, K G and Satapathy, S (2007). *Good Governance and Poverty Alleviation: A Study of S.G.S.Y. Programme*. New Delhi, India: Concept Pub. Co.
- Rao, M Govinda, Amar Nath, H K and Vani, B P (2002). Rural Fiscal Decentralisation in Karnataka State. Institute for Social and Economic Change - National Institute of Public Finance and Policy study. Retrieved from http://www.nipfp.org.in/media/medialibrary/2014/11/Rural_Fiscal_Decentralisation_in_Karnataka_State.pdf.
- Shelley, P Bysshe (1820). *A Philosophical View of Reform* [PDF version]. Retrieved from http://if-oll.s3.amazonaws.com/titles/2510/Shelley_1623_EBk_v7.0.pdf
- WDR (2000). World Development Report 2000/2001, Attacking Poverty. Report No.: 22684. New York: USA. Oxford University Press. Retrieved from <http://documents.worldbank.org/curated/en/230351468332946759/pdf/226840WDR00PUB0ng0poverty0200002001.pdf>.
- World Bank (2001). Report and Recommendation of the President of the International Development Association and the International Bank for Reconstruction and Development for the Karnataka Economic Restructuring. Report No. P7453 IN. Retrieved from <http://documents.worldbank.org/curated/en/433411468259512221/India-Karnataka-Economic-Restructuring-Loan-Credit-Project>.
- (2002). India - Karnataka Economic Restructuring 1. ICR Review. Report Number: ICRR11313. Operation Evaluation Department. Retrieved from <http://documents.worldbank.org/curated/en/244011475073142978/pdf/000020051-20140607154608.pdf>.
- (2003). Implementation Completion Report (SCL-46520; IDA-36170) for Karnataka Economic Restructuring Loan/Credit II. Report No: 26105. Retrieved from <http://documents.worldbank.org/curated/en/248911468267291448/India-Second-Karnataka-Economic-Restructuring-Loan-Credit-Project>

Recent Working Papers

- 345 **Effect of Rural Infrastructure on Agricultural Development: District-Level Analysis in Karnataka**
Soumya Manjunath and Elumalai Kannan
- 346 **Moreh-Namphalong Border Trade**
Marchang Reimeingam
- 347 **Emerging Trends and Patterns of India's Agricultural Workforce: Evidence from the Census**
S Subramanian
- 348 **Estimation of the Key Economic Determinants of Services Trade: Evidence from India**
Mini Thomas P
- 349 **Employment-Export Elasticities for the Indian Textile Industry**
Tarun Arora
- 350 **Caste and Care: Is Indian Healthcare Delivery System Favourable for Dalits?**
Sobin George
- 351 **Food Security in Karnataka: Paradoxes of Performance**
Stacey May Comber, Marc-Andre Gauthier, Malini L Tantri, Zahabia Jivaji and Miral Kalyani
- 352 **Land and Water Use Interactions: Emerging Trends and Impact on Land-use Changes in the Tungabhadra and Tagus River Basins**
Per Stalnacke, Begueria Santiago, Manasi S, K V Raju, Nagothu Udaya Sekhar, Maria Manuela Portela, António Betaâmio de Almeida, Marta Machado, Lana-Renault, Noemí, Vicente-Serrano and Sergio
- 353 **Ecotaxes: A Comparative Study of India and China**
Rajat Verma
- 354 **Own House and Dalit: Selected Villages in Karnataka State**
I Maruthi and Pesala Busenna
- 355 **Alternative Medicine Approaches as Healthcare Intervention: A Case Study of AYUSH Programme in Peri Urban Locales**
Manasi S, K V Raju, B R Hemalatha, S Poornima, K P Rashmi
- 356 **Analysis of Export Competitiveness of Indian Agricultural Products with ASEAN Countries**
Subhash Jagdambe
- 357 **Geographical Access and Quality of Primary Schools - A Case Study of South 24 Parganas District of West Bengal**
Jhuma Halder
- 358 **The Changing Rates of Return to Education in India: Evidence from NSS Data**
Smrutirekha Singhari and S Madheswaran
- 359 **Climate Change and Sea-Level Rise: A Review of Studies on Low-Lying and Island Countries**
Nidhi Rawat, M S Umesh Babu and Sunil Nautiyal
- 360 **Educational Outcome: Identifying Social Factors in South 24 Parganas District of West Bengal**
Jhuma Halder
- 361 **Social Exclusion and Caste Discrimination in Public and Private Sectors in India: A Decomposition Analysis**
Smrutirekha Singhari and S Madheswaran
- 362 **Value of Statistical Life: A Meta-Analysis with Mixed Effects Regression Model**
Agamoni Majumder and S Madheswaran
- 363 **Informal Employment in India: An Analysis of Forms and Determinants**
Rosa Abraham
- 364 **Ecological History of An Ecosystem Under Pressure: A Case of Bhitarkanika in Odisha**
Subhashree Banerjee
- 365 **Work-Life Balance among Working Women – A Cross-cultural Review**
Gayatri Pradhan
- 366 **Sensitivity of India's Agri-Food Exports to the European Union: An Institutional Perspective**
C Nalin Kumar
- 367 **Relationship Between Fiscal Deficit Composition and Economic Growth in India: A Time Series Econometric Analysis**
Anantha Ramu M R and K Gayithri
- 368 **Conceptualising Work-life Balance**
Gayatri Pradhan
- 369 **Land Use under Homestead in Kerala: The Status of Homestead Cultivation from a Village Study**
Sr. Sheeba Andrews and Elumalai Kannan
- 370 **A Sociological Review of Marital Quality among Working Couples in Bangalore City**
Shiju Joseph and Anand Inbanathan
- 371 **Migration from North-Eastern Region to Bangalore: Level and Trend Analysis**
Marchang Reimeingam
- 372 **Analysis of Revealed Comparative Advantage in Export of India's Agricultural Products**
Subhash Jagdambe
- 373 **Marital Disharmony among Working Couples in Urban India – A Sociological Inquiry**
Shiju Joseph and Anand Inbanathan
- 374 **MGNREGA Job Sustainability and Poverty in Sikkim**
Marchang Reimeingam
- 375 **Quantifying the Effect of Non-Tariff Measures and Food Safety Standards on India's Fish and Fishery Products' Exports**
Veena Renjini K K
- 376 **PPP Infrastructure Finance: An Empirical Evidence from India**
Nagesha G and K Gayithri
- 377 **Contributory Pension Schemes for the Poor: Issues and Ways Forward**
D Rajasekhar, Santosh Kesavan and R Manjula
- 378 **Federalism and the Formation of States in India**
Susant Kumar Naik and V Anil Kumar

- 379 **Ill-Health Experience of Women: A Gender Perspective**
Annapuranam Karuppannan
- 380 **The Political Historiography of Modern Gujarat**
Tannen Neil Lincoln
- 381 **Growth Effects of Economic Globalization: A Cross-Country Analysis**
Sovna Mohanty
- 382 **Trade Potential of the Fishery Sector: Evidence from India**
Veena Renjini K K
- 383 **Toilet Access among the Urban Poor – Challenges and Concerns in Bengaluru City Slums**
S Manasi and N Latha
- 384 **Usage of Land and Labour under Shifting Cultivation in Manipur**
Marchang Reimeingam
- 385 **State Intervention: A Gift or Threat to India's Sugarcane Sector?**
Abnave Vikas B and M Devendra Babu
- 386 **Structural Change and Labour Productivity Growth in India: Role of Informal Workers**
Rosa Abraham
- 387 **Electricity Consumption and Economic Growth in Karnataka**
Laxmi Rajkumari and K Gayithri
- 388 **Augmenting Small Farmers' Income through Rural Non-farm Sector: Role of Information and Institutions**
Meenakshi Rajeev and Manojit Bhattacharjee
- 389 **Livelihoods, Conservation and Forest Rights Act in a National Park: An Oxymoron?**
Subhashree Banerjee and Syed Ajmal Pasha
- 390 **Womanhood Beyond Motherhood: Exploring Experiences of Voluntary Childless Women**
Chandni Bhambhani and Anand Inbanathan
- 391 **Economic Globalization and Income Inequality: Cross-country Empirical Evidence**
Sovna Mohanty
- 392 **Cultural Dimension of Women's Health across Social Groups in Chennai**
Annapuranam K and Anand Inbanathan
- 393 **Earnings and Investment Differentials between Migrants and Natives: A Study of Street Vendors in Bengaluru City**
Channamma Kambara and Indrajit Bairagya
- 394 **'Caste' Among Muslims: Ethnographic Account from a Karnataka Village**
Sobin George and Shrinidhi Adiga
- 395 **Is Decentralisation Promoting or Hindering the Effective Implementation of MGNREGS? The Evidence from Karnataka**
D Rajasekhar, Salim Lakha and R Manjula
- 396 **Efficiency of Indian Fertilizer Firms: A Stochastic Frontier Approach**
Soumita Khan
- 397 **Politics in the State of Telangana: Identity, Representation and Democracy**
Anil Kumar Vaddiraju
- 398 **India's Plantation Labour Act - A Critique**
Malini L Tantri
- 399 **Federalism and the Formation of States in India: Some Evidence from Hyderabad-Karnataka Region and Telangana State**
Susant Kumar Naik
- 400 **Locating Armed Forces (Special Powers) Act, 1958 in the Federal Structure: An Analysis of Its Application in Manipur and Tripura**
Rajiv Tewari
- 401 **Performance of Power Sector in Karnataka in the Context of Power Sector Reforms**
Laxmi Rajkumari and K Gayithri
- 402 **Are Elections to Grama Panchayats Party-less? The Evidence from Karnataka**
D Rajasekhar, M Devendra Babu and R Manjula
- 403 **Hannah Arendt and Modernity: Revisiting the Work *The Human Condition***
Anil Kumar Vaddiraju
- 404 **From E-Governance to Digitisation: Some Reflections and Concerns**
Anil Kumar Vaddiraju and S Manasi
- 405 **Understanding the Disparity in Financial Inclusion across Indian States: A Comprehensive Index for the Period 1984 – 2016**
Shika Saravanabhavan
- 406 **Gender Relations in the Context of Women's Health in Chennai**
Annapuranam K and Anand Inbanathan
- 407 **Value of Statistical Life in India: A Hedonic Wage Approach**
Agamoni Majumder and S Madheswaran

Price: ₹ 30.00

ISBN 978-81-7791-264-7



INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE

Dr V K R V Rao Road, Nagarabhavi P.O., Bangalore - 560 072, India
Phone: 0091-80-23215468, 23215519, 23215592; Fax: 0091-80-23217008
E-mail: reimeingam@isec.ac.in; Web: www.isec.ac.in



INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE

Dr V K R V Rao Road, Nagarabhavi, Bengaluru - 560 072

Phone: +91-80-23215468, 23215519, 23215592 Fax: +91-80-23217008

E-mail: admn@isec.ac.in Web: <http://www.isec.ac.in>